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SUBJECT: KAZAKHSTAN: KAZMUNAIGAS ANNOUNCES OFFERING OF  
SHARES IN ONSHORE PRODUCTION SUBSIDIARY

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¶1. (SBU) Summary: On September 4, KazMunaiGas Exploration and Production company (KMG E&P), the onshore production subsidiary of Kazakhstan's state-owned oil company, formally announced its intention to issue shares on both Kazakhstan's stock exchange (KASE) and the London Stock Exchange. According to KMG insiders and press reports, the IPO -- which will cover up to 40% of the company's shares, and is expected to raise as much as \$2 billion -- will occur before year-end. The company simultaneously announced the appointment of three Western executives to its Board, and may be preparing other moves designed -- or timed -- to peak investor interest in the IPO. End summary.

LONG-AWAITED IPO IMMINENT  
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¶2. (SBU) KMG E&P issued a September 4 press release confirming its long-rumored intention to offer shares on KASE and global depository receipts (GDRs) on the London Stock Exchange. KMG insiders have generally refused to talk about the IPO, citing non-disclosure agreements, but Galiausat Keshubayev, Director of the Samruk Holding Company's Office for Management of KMG, recently confirmed to Econoff that the offering would occur in 2006. KMG E&P will likely float approximately 40% of its shares, leaving a majority share in the hands of its KMG parent company.

¶3. (SBU) According to a recent (January 2006) law, adopted in part to strengthen Kazakhstan's weak domestic stock market, KMG E&P must float at least 20% of its total offer on the KASE. The remainder will be issued, to institutional investors only, on the London Stock Exchange in the form of Global Depository Receipts. This type of offering requires relatively little disclosure on the part of the issuer.

RAISING CASH FOR OFFSHORE ACTIVITY  
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¶4. (SBU) According to industry analysis, KMG E&P may raise as much as \$2 billion from the IPO. Asked the reasons for the IPO, our KMG and GOK interlocutors most often cite KMG's need for cash to maintain -- and even increase -- its offshore presence. (Note: A 2005 law granted KMG the right to at least 50% in future offshore projects. KMG is rumored to already be under fiscal strain due to delays and cost overruns at the offshore Kashagan project, in which it is an 8.33% participant. End note.)

E&P SPRUCES UP FOR THE SALE

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15. (SBU) KMG E&P is Kazakhstan's third-largest oil producer (behind TengizChevrOil and the Karachaganak Petroleum Operating company) at 186,000 barrels/day. Analysts often speculate that, with its "easy" oil already tapped, KMG E&P may have reached its production peak - a fact which, if true, would likely dampen investor interest in the IPO. However, ExxonMobil's local E&P representative, Peter Claypoole, recently told Econoff that his company is nearing final agreement with KMG E&P to conduct joint "deep seismic" studies of a large portion of the onshore North Caspian - a development which shows clear investor confidence in onshore growth potential. (The agreement would give ExxonMobil certain "first rights" to purchase and develop promising blocks, in partnership with KMG.)

16. (SBU) Claypoole told Econoff that the KMG E&P negotiators have drastically accelerated the pace of negotiations of late, a move he interprets as a sign that KMG wants to announce the news of a deal - "with a big American major" -- prior to the IPO. In another move presumably aimed to bolster investor confidence, KMG E&P announced the appointment of three new outside, Western board members on September 4.

17. (SBU) KMG E&P has also moved quietly to remove a potential political obstacle to its IPO. In August 2005 the Asar political party - led, at the time, by Dariga Nazerbaeva, the President's eldest daughter and parliamentarian - publicly criticized the idea of a KMG E&P IPO, arguing that the sale of the "only state-owned oil production and refining enterprise" would "undermine the President's efforts to develop a strong and economically independent state." In December 2005, following lively debate in Kazakhstan's Lower House, KMG

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E&P sold its shares in the Atyrau refinery - one of only three in Kazakhstan - to its parent, KMG, thus shielding the refinery from the planned privatization and defusing potential criticism of the IPO on "national security" grounds.

18. (SBU) Comment: While this IPO has been in the works for a long time, Kazakhstan's decision-makers were likely encouraged to move forward by the relative success of Rosneft's July 2006 IPO. As the only state-owned onshore producer, KMG E&P has clear advantages that will appeal to investors, including a "pre-emptive right" to buy existing onshore contracts and preferential access to new onshore licenses. End comment.

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